

Nestlé India

Estimate changes

TP change

Rating change



Bloomberg	NEST IN
Equity Shares (m)	964
M.Cap.(INRb)/(USD\$)	2470.8 / 29.7
52-Week Range (INR)	2771 / 2031
1, 6, 12 Rel. Per (%)	-3/-12/-3
12M Avg Val (INR M)	1982

Financials & Valuations (INR b)

Y/E Dec	FY24	FY25E	FY26E
Sales	243.9	212.3	236.7
Sales Gr. (%)	15.5	12.4	11.5
EBITDA	59.1	51.9	58.8
Margin (%)	24.2	24.5	24.8
Adj. PAT	39.6	34.5	39.4
Adj. EPS (INR)	41.0	35.8	40.9
EPS Gr. (%)	62.5	-12.9	14.2
BV/Sh.(INR)	34.6	39.0	44.1

Ratios

RoE (%)	136.5	97.1	98.3
RoCE (%)	140.9	100.1	100.0
Payout (%)	87.1	87.1	87.1

Valuations

P/E (x)	62.4	71.6	62.7
P/BV (x)	73.9	65.6	58.1
EV/EBITDA (x)	41.6	47.8	42.1
Div. Yield (%)	1.3	1.2	1.4

*Note: FY24 is 15-month period as the company changed its accounting year-end from December to March. However, FY25E growth is adjusted to 12 months in FY24E

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	62.8	62.8	62.8
DII	9.1	9.2	9.2
FII	12.1	12.1	12.1
Others	16.1	16.0	16.0

FII Includes depository receipts

CMP: INR2,563
TP: INR2,400 (-6%)
Neutral

Steady performance; but valuations expensive

- Nestle India (NEST) reported 9% YoY revenue growth (est. 8.5%) during the quarter ended Mar'24. The company has achieved 12% revenue CAGR over a five-year period (CY18-FY24). Domestic sales grew 9% YoY, well supported by pricing, mix, and volume growth. Export sales rose 19% YoY to INR2.3b for the quarter.
- GM expanded 300bp YoY to 56.8% (in line); GP was up 15% YoY. Input prices are witnessing inflationary pressures, with coffee and cocoa prices at all-time highs. Cereals, grains (MSP-led), and milk are also experiencing high inflation. NEST posted a strong gross margin recovery last year (up 300bp in the last 12 months); but FY25 may see some pressure on gross margin. EBITDA margin expanded 220bp YoY, while EBITDA rose 19% YoY to INR13.4b (est. INR12.8b).
- NEST has entered into a JV agreement with **Dr. Reddy's Laboratories** aimed at introducing its health science nutraceutical portfolio to consumers. This JV is likely to become operational in 2QFY25. The company has also launched **NESPRESSO coffees and machines** in India, with plans to open the first NESPRESSO boutique in Delhi.
- NEST has been strategically implementing its RURBAN strategy to expand its distribution reach in the untapped markets. There has been a broad-based growth across brands for the last few years. **Reiterate Neutral with a TP of INR2,400 (based on 60x P/E Mar'26E) due to expensive valuations.**

In-line performance; margin expansion continues

- Domestic sales growth momentum intact:** NEST recorded 9% YoY net sales growth to INR52.7b (est. INR52.4b). Domestic sales grew 9% YoY, driven by strategic pricing and supported by a favorable product mix.
- Broad-based growth across categories:** The growth was broad-based, with all segments supporting headline growth. The milk and nutrition product category achieved strong growth despite inflation. Prepared dishes and cooking aids sustained strong growth, led by MAGGI Noodles and MAGGI Masala-ae-Magic. Confectionery also demonstrated healthy performance fueled by KITKAT. Beverages also delivered a healthy performance during the quarter.
- Export sales** increased 19% YoY to INR2.3b, primarily driven by MAGGI Noodles and Sauces, which witnessed an increase in demand in key markets including Canada, the US, Australia, New Zealand, and Singapore. NESCAFÉ SUNRISE also saw significant traction in established markets such as Singapore and Taiwan. The brand also entered Canada.
- Gross margin expanded 300bp YoY to 56.8% (in line), leading to a 220bp YoY expansion in EBITDA margin to 25.5% (est. 24.4%). EBITDA grew 19% YoY to INR13.4b (est. INR 12.8b).
- PBT grew 21% YoY to INR12.3b (est. INR11.7b), and Adj. PAT rose 22% YoY to INR9.1b (est. INR8.7b) during the quarter.
- The BOD recommended a final dividend of INR8.5/share.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Valuation and view

- There are no material changes to our FY24 and FY25 EPS estimates.
- The company has been building its strategy around its RURBAN concept; therefore, growth rates are higher in the RURBAN markets. The distribution penetration has been benefiting NEST across most of its categories. Packaged food penetration has improved in the tier-2 and rural markets.
- The GM trajectory has been volatile over the last three years. It was at 57% in CY21, but then dropped to 54% in CY22. Owing to the benign raw material inflation, NEST's GM expanded in CY23. We model ~56% margin in FY25-FY26.
- NEST's portfolio is relatively safe from local competition; thus, operating costs have not accelerated, unlike its FMCG peers. We believe the company will be able to sustain its EBITDA margin at ~25% for FY25/FY26.
- The stock trades at expensive valuations of 72x/63x FY25E/FY26E P/E. **Reiterate Neutral with a TP of INR2,400 (based on 60x P/E Mar'26E).**

Quarterly performance**(INR b)**

Y/E December	CY22				FY24				Mar'24Q	CY22	FY24	Estimate Mar'24QE	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q					
Net Sales	39.9	40.5	46.0	42.6	48.3	46.6	50.4	46.0	52.7	169.0	243.9	52.4	0.5%
YoY Change (%)	10.6	16.4	18.5	13.6	21.0	15.1	9.5	8.1	9.0	14.6	15.5	8.5	
Gross Profit	22.1	21.8	24.2	23.4	26.0	25.5	28.5	27.0	29.9	91.5	136.9	29.8	
Margin (%)	55.3	53.9	52.7	54.9	53.8	54.8	56.5	58.6	56.8	54.1	56.1	56.8	
EBITDA	9.4	8.6	10.3	9.9	11.2	10.7	12.5	11.3	13.4	38.1	59.1	12.8	5.0%
Margins (%)	23.5	21.2	22.3	23.4	23.3	22.9	24.8	24.5	25.5	22.6	24.2	24.4	
YoY Growth (%)	0.5	0.9	6.5	14.5	19.8	24.5	21.6	13.5	19.4	6.1	23.9	13.8	
Depreciation	1.0	1.0	1.0	1.0	1.0	1.1	1.1	1.1	1.1	4.0	5.4	1.1	
Interest	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.2	0.3	1.5	1.5	0.2	
Other income	0.2	0.2	0.3	0.3	0.3	0.2	0.3	0.3	0.3	1.0	1.5	0.3	
PBT	8.2	7.4	9.2	8.8	10.2	9.5	11.4	10.3	12.3	33.6	53.7	11.7	5.2%
Tax	2.1	1.9	2.4	2.3	2.5	2.4	3.1	2.3	3.2	8.7	13.6	2.9	
Rate (%)	25.8	25.1	25.8	26.2	24.9	25.4	27.6	22.5	25.6	25.8	25.2	24.7	
Adjusted PAT	6.0	5.4	6.7	6.3	7.5	7.0	8.1	7.8	9.1	24.4	39.6	8.7	5.1%
YoY Change (%)	(0.9)	2.9	7.3	10.9	25.8	30.0	20.7	23.5	21.7	4.5	30.0	15.8	

E: MOFSL Estimates

Note - FY24 is 15-month period as the company changed its accounting year-end from December to March. However, FY25E growth is adjusted to 12 months in FY24E

Key Performance Indicators

Y/E December	CY22				FY24				Mar'24Q
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	
2Y average growth (%)									
Sales	9.6	15.2	14.1	11.4	15.8	15.8	14.0	10.8	15.0
EBITDA	7.9	5.7	6.3	13.2	10.1	12.7	14.0	14.0	19.6
PAT	6.1	4.2	5.3	16.9	12.5	16.5	14.0	17.2	23.7
% of Sales									
COGS	44.7	46.1	47.3	45.1	46.2	45.2	43.5	41.4	43.2
Employee Expenses	10.0	10.1	9.1	9.6	9.4	9.8	10.3	9.1	9.2
Other Expenses	21.8	22.6	21.3	21.9	21.1	22.1	21.5	24.9	22.1
Depreciation	2.6	2.5	2.1	2.3	2.1	2.3	2.2	2.4	2.1
YoY change (%)									
COGS	19.2	24.8	26.6	19.0	25.0	12.8	0.6	-0.9	2.0
Employee Expenses	8.2	8.4	8.2	4.6	14.0	11.5	23.2	3.2	7.2
Other Expenses	6.9	18.7	19.0	3.7	17.2	12.7	10.5	22.8	13.9
Other Income	-27.7	-34.3	-9.0	8.1	57.1	23.6	8.6	2.5	-20.6
EBIT	-0.8	0.1	6.9	17.5	22.7	27.1	22.4	13.9	20.7

Key highlights from the press release

Category performance

- **Prepared Dishes and Cooking Aids:** Growth momentum persisted in the Prepared Dishes and Cooking Aids segments fueled by strong consumer engagements, media campaigns, innovations, and enhanced RURBAN penetration. NEST launched MAGGI Oats Noodles with Millet Magic, Korean Noodles, MAGGI Teekha Masala, and MAGGI Chatpata Masala variants.
- **Milk Products and Nutrition:** Milkmaid and Ready-To-Drink (RTD) segments delivered strong growth despite inflationary pressure.
- **Confectionery:** The Confectionery segment delivered strong performance driven by the launch of new products, increased media exposure, a more extensive and expanding distribution network, and innovative brand activations. India became the second-largest market for the brand globally.
- **Beverages:** Strong growth was achieved across the NESCAFÉ portfolio, with NESCAFÉ CLASSIC, NESCAFÉ SUNRISE, and NESCAFÉ GOLD experiencing double-digit growth. This leads to market share gains and increased household penetration.
- **Pet Foods:** NEST continues to focus on the e-commerce platform to expand its pet portfolio further.

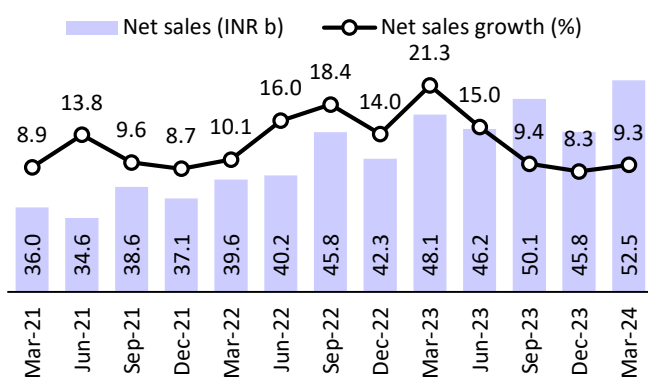
Other points

- Out-of-Home (OOH) posted robust growth, driven by portfolio enhancements, penetration in emerging channels, and expansion beyond Metros & Tier-1 cities.
- The e-commerce channel contributed 6.8% of domestic sales during the quarter, driven by brands like KITKAT & MAGGI noodles, and Quick commerce. The Quick commerce was supported by new user acquisitions and targeted digital communication across various touchpoints.
- Organized trade continued to deliver strong broad-based growth across categories, driven by store expansions and improved footfalls.
- RURBAN reach has expanded, now encompassing over 2,00,000 villages.
- The company has **launched NESPRESSO coffees** and machines in India. The first NESPRESSO boutique is intended to be opened in Delhi before expanding to other key cities. NESPRESSO will also be sold online through e-commerce platforms.

- **Commodity outlook:** Commodity prices are seeing unprecedented headwinds, with Coffee and Cocoa prices at all-time highs. Cereals and grains are going through structural cost inflation backed by MSP. Milk prices are expected to rise on account of a likely harsh summer.
- **Entered into a JV with Dr. Reddy's:** NEST has entered into a JV agreement with **Dr. Reddy's Laboratories** aimed at introducing its health science nutraceutical portfolio to consumers. This JV is likely to become operational in 2QFY25. NEST will be using Dr. Reddy's strong retail and distribution network. The joint venture company would be formed with Dr Reddy's holding 51% and NEST holding 49% stake. NEST will have a call option to increase its shareholding up to 60% after six years at a fair market value. Its headquarter will be in Hyderabad.

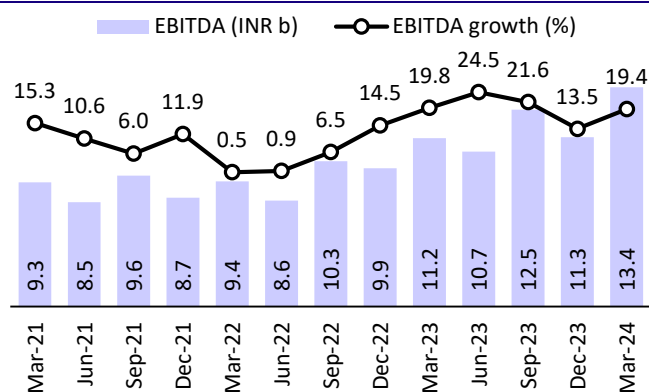
Key Exhibits

Exhibit 1: Net sales up 9.3% YoY to INR52.5b



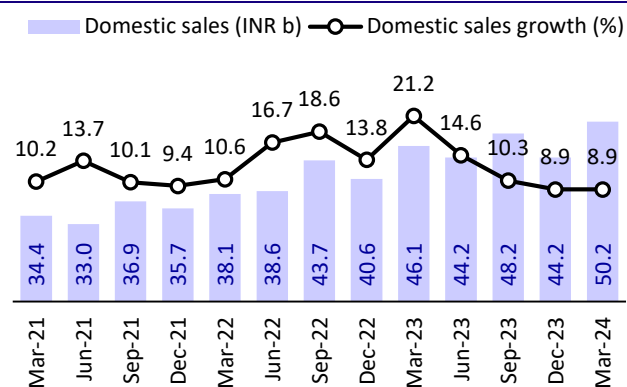
Sources: Company reports, MOFSL

Exhibit 2: EBITDA rose 19.4% YoY to INR13.4b



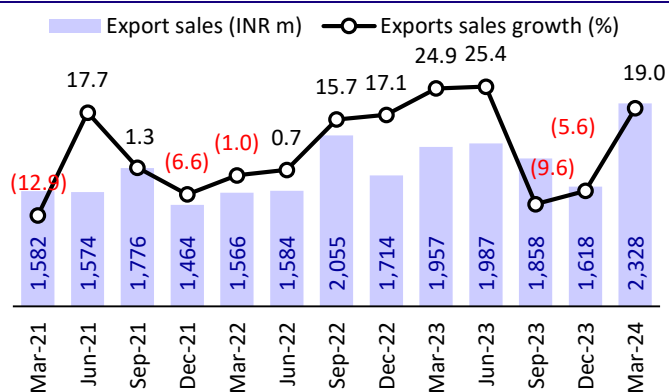
Source: Company reports, MOFSL

Exhibit 3: Domestic sales rose 8.9% YoY to INR50.2b

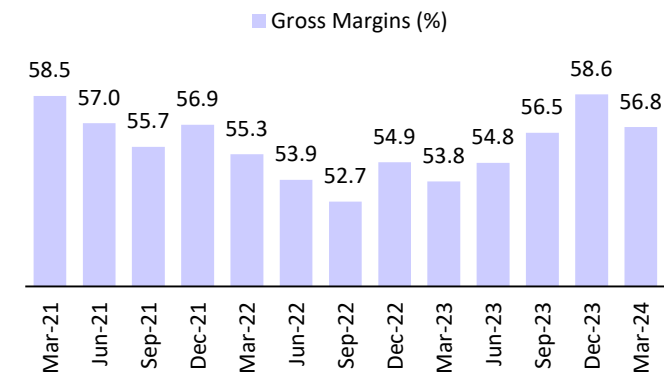


Sources: Company reports, MOFSL

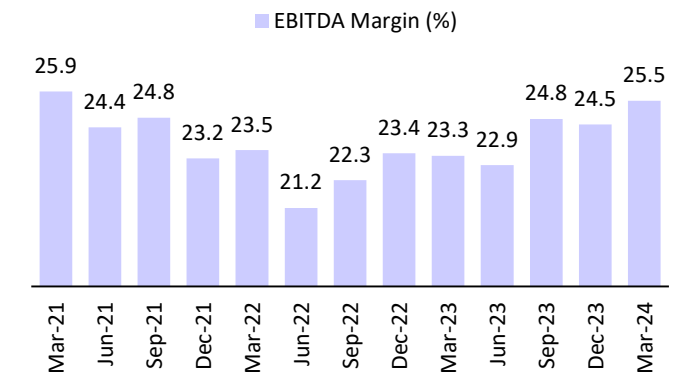
Exhibit 4: Exports sales grew 19% YoY to INR2,328m



Sources: Company reports, MOFSL

Exhibit 5: Gross margin expanded ~300bp YoY to 56.8%

Sources: Company reports, MOFSL

Exhibit 6: EBITDA margin expanded ~220bp YoY to 25.5%

Sources: Company reports, MOFSL

Valuation and view

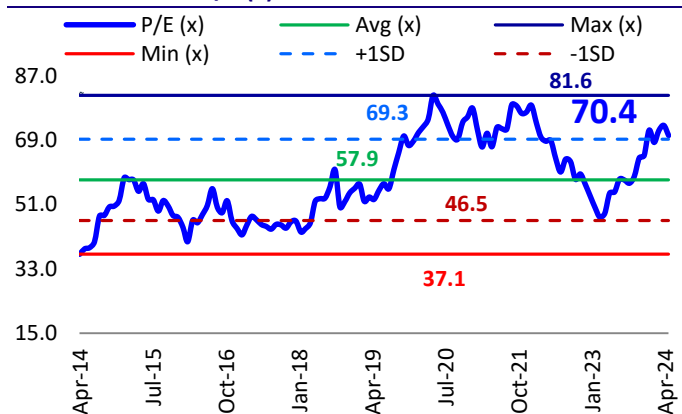
What has happened over the last 10 years?

- After a period of weak growth on all fronts in the first half of the decade, NEST has shown significant improvement in the second half, especially in the last five years.
- NEST reported sales/EBITDA/PAT CAGR of 8-10% over CY13-23.
- Over the past five years, the company has experienced accelerated growth (~12% sales CAGR). Additionally, the EBITDA/PAT CAGR stood at 11%/13%, despite facing various macro disruptions, including demonetization, GST rollout, the pandemic, and commodity cost headwinds, which have had an adverse impact on the FMCG sector.
- Starting with damage control since the Maggi crisis in CY15, the management has initiated a series of measures, including: a) a focus on volume-led, double-digit sales growth, b) over 90 product launches since CY16, c) back-up launches with a sharp increase in ad spending, and d) a focus on distribution expansion (more recently).

Reiterate Neutral rating

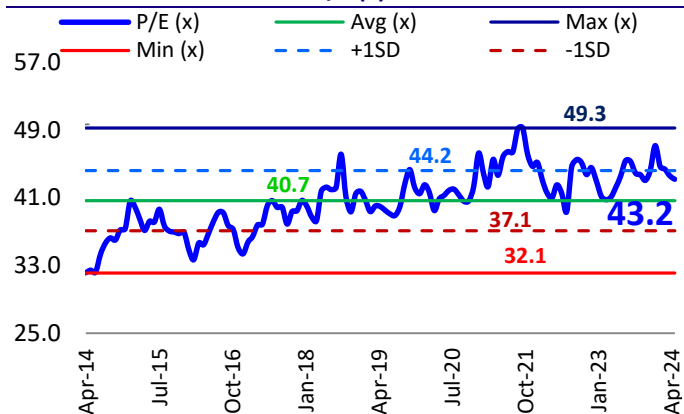
- There are no material changes to our FY24 and FY25 EPS estimates.
- The company has been building its strategy around its RURBAN concept; therefore, growth rates are higher in the RURBAN markets. The distribution penetration has been benefiting NEST across most of its categories. Packaged food penetration has improved in the tier-2 and rural markets.
- The GM trajectory has been volatile over the last three years. It was at 57% in CY21, but then dropped to 54% in CY22. Owing to the benign raw material inflation, NEST's GM expanded in CY23. We model ~56% margin in FY25-FY26.
- NEST's portfolio is relatively safe from local competition; thus, operating costs have not accelerated, unlike its FMCG peers. We believe the company will be able to sustain its EBITDA margin at ~25% for FY25/FY26.
- The stock trades at expensive valuations of 72x/63x FY25E/FY26E P/E. **Reiterate Neutral with a TP of INR2,400 (based on 60x P/E Mar'26E).**

Exhibit 7: NEST's P/E (x)



Sources: Company reports, MOFSL

Exhibit 8: Consumer sector P/E (x)



Sources: Company reports, MOFSL

Exhibit 9: No material changes to our estimates

	Old		New		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	212.3	236.7	210.6	234.6	0.8	0.9
EBITDA	51.9	58.8	51.9	58.9	0.1	-0.2
PAT	34.5	39.4	34.5	39.4	-0.2	0.0

Source: MOFSL

Financials and valuations

Income Statement						(INR b)	
Y/E December	CY19	CY20	CY21	CY22	FY24	FY25E	FY26E
Net Sales	123.7	133.5	147.4	169.0	243.9	212.3	236.7
Change (%)	9.5	7.9	10.4	14.6	15.5	12.4	11.5
Gross Profit	71.4	76.8	83.9	91.5	136.9	118.5	132.5
Margin (%)	57.8	57.5	56.9	54.1	56.1	55.8	56.0
EBITDA	29.3	32.6	36.0	38.1	59.1	51.9	58.8
Change (%)	6.1	11.4	10.2	6.1	23.9	-12.1	13.2
Margin (%)	23.7	24.4	24.4	22.6	24.2	24.5	24.8
Depreciation	3.2	3.7	3.9	4.0	5.4	5.6	6.2
Int. and Fin. Ch.	1.2	1.6	2.0	1.5	1.5	1.3	1.2
Other Inc.- Rec.	2.5	1.5	1.2	1.0	1.5	1.8	2.1
PBT	27.4	28.7	31.2	33.6	53.7	46.8	53.4
Change (%)	6.5	4.9	8.7	7.5	60.0	-12.8	14.1
Margin (%)	22.1	21.5	21.2	19.9	22.0	22.1	22.6
Tax	7.1	7.3	7.4	8.7	13.6	11,791	13,480
Tax Rate (%)	25.8	25.4	23.7	25.8	25.2	25.2	25.2
Adjusted PAT	19.9	21.0	23.3	24.4	39.6	34.5	39.4
Change (%)	15.8	5.1	11.2	4.5	30.0	-12.9	14.2
Margin (%)	16.1	15.7	15.8	14.4	16.2	16.2	16.6
Reported PAT	19.7	20.8	21.2	23.9	39.3	34.3	39.2

Balance Sheet						(INR b)	
Y/E December	CY19	CY20	CY21	CY22	FY24	FY25E	FY26E
Share Capital	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Reserves	18.4	19.2	19.9	23.6	32.4	36.7	41.6
Net Worth	19.3	20.2	20.8	24.6	33.4	37.7	42.5
Loans	0.5	0.3	0.3	0.3	0.3	0.6	0.9
Capital Employed	19.9	20.5	21.1	24.9	33.7	38.3	43.4
Gross Block	36.1	40.0	51.2	54.7	64.3	99.7	109.7
Less: Accum. Depn.	13.8	18.2	21.2	24.3	29.7	35.2	41.5
Net Fixed Assets	22.3	21.8	29.9	30.4	34.6	64.5	68.2
Capital WIP	1.4	6.4	2.5	3.6	17.4	2.0	2.0
Investments	17.5	14.6	7.7	7.8	4.6	4.6	4.6
Curr. Assets, L&A	29.4	36.0	41.7	47.7	48.6	28.1	36.2
Inventory	12.8	14.2	15.8	19.3	20.9	23.8	26.4
Account Receivables	1.2	1.6	1.7	1.9	3.0	2.4	2.7
Cash and Bank Balance	13.1	17.7	7.4	9.5	7.8	-14.5	-9.7
Others	2.2	2.5	16.9	17.1	16.9	16.4	16.8
Curr. Liab. and Prov.	50.5	58.5	61.0	64.9	71.4	60.8	67.5
Account Payables	14.9	15.2	17.3	19.3	22.4	16.3	18.3
Other Liabilities	5.7	8.5	7.1	9.5	14.1	15.5	17.0
Provisions	29.9	34.9	36.5	36.1	34.9	29.0	32.2
Net Curr. Assets	-21.2	-22.5	-19.3	-17.2	-22.8	-32.7	-31.3
Def. Tax Liability	-0.2	0.2	0.3	0.3	-0.1	-0.1	-0.1
Appl. of Funds	19.9	20.5	21.1	24.9	33.7	38.3	43.4

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E December	CY19	CY20	CY21	CY22	FY24	FY25E	FY26E
Basic (INR)							
EPS	20.7	21.7	24.2	25.3	41.0	35.8	40.9
Cash EPS	24.0	25.6	28.2	29.4	46.6	41.5	47.3
BV/Share	20.0	20.9	21.6	25.5	34.6	39.0	44.1
DPS	34.2	20.0	20.0	22.0	32.2	31.1	35.6
Payout (%)	165.3	92.0	82.7	87.1	87.1	87.1	87.1
Valuation (x)							
P/E	123.9	117.8	106.0	101.4	62.4	71.6	62.7
Cash P/E	106.9	100.1	90.7	87.0	55.0	61.7	54.1
EV/Sales	19.7	18.3	16.7	14.5	10.1	11.7	10.5
EV/EBITDA	83.4	74.7	68.3	64.3	41.6	47.8	42.1
P/BV	127.8	122.3	118.5	100.5	73.9	65.6	58.1
Dividend Yield (%)	1.3	0.8	0.8	0.9	1.3	1.2	1.4
Return Ratios (%)							
RoE	71.2	106.1	113.6	107.2	136.5	97.1	98.3
RoCE	74.5	112.2	122.0	113.4	140.9	100.1	100.0
Working Capital Ratios							
Debtor (Days)	3.7	4.5	4.1	4.1	4.5	4.1	4.1
Asset Turnover (x)	4.3	6.6	7.1	7.4	8.3	5.9	5.8
Leverage Ratio							
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement

Y/E December	CY19	CY20	CY21	CY22	FY24	FY25E	FY26E
(INR b)							
OP/(loss) before Tax	26.7	28.1	28.8	32.6	52.9	46.1	52.7
Int./Div. Received	0.0	0.3	0.1	0.2	0.3	1.3	1.2
Depn. and Amort.	3.2	3.7	3.9	4.0	5.4	5.6	6.2
Interest Paid	-2.5	-1.5	-1.3	-0.7	-1.3	-1.8	-2.1
Direct Taxes Paid	-6.7	-7.0	-7.3	-8.4	-13.0	-11.8	-13.5
Incr in WC	1.6	1.0	-1.5	-0.3	-2.5	-8.2	0.2
CF from Operations	22.3	24.5	22.7	27.4	41.7	31.1	44.7
Others	11.7	4.4	8.0	0.9	2.0	-2.4	5.3
Incr in FA	-1.5	-4.7	-7.3	-5.4	-18.8	-20.0	-10.0
Free Cash Flow	20.8	19.8	15.4	22.0	23.0	11.1	34.7
Pur of Investments	-0.2	0.0	-13.5	0.5	4.7	0.0	0.0
CF from Invest.	10.0	-0.4	-12.9	-4.0	-12.1	-22.4	-4.7
Incr in Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend Paid	-35.6	-18.9	-19.3	-20.2	-30.1	-30.0	-34.3
Others	0.2	-0.7	-0.9	-1.0	-1.3	-1.0	-0.9
CF from Fin. Activity	-35.4	-19.6	-20.2	-21.2	-31.3	-31.0	-35.2
Incr/Decr of Cash	-3.0	4.6	-10.3	2.1	-1.7	-22.3	4.8
Add: Opening Balance	16.1	13.1	17.7	7.4	9.5	7.8	-14.5
Closing Balance	13.1	17.7	7.4	9.5	7.8	-14.5	-9.7

E: MOFSL Estimates

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SELL	< - 10%
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UNDER REVIEW	Rating may undergo a change
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